



Putting Money into Hospitals Instead of Private Health Insurance					
Party:	Australian Greens				
Summary of proposal:					
This proposal would phase out the Private Health Insurance Rebate over three years from 1 July 2022 to allow for money to be reinvested into the public health system. The policy would also remove the Medicare Levy Surcharge and Lifetime Health Cover.					
The phase-out would occur as follows:					
Rebate percentage	2021-22 (%) (current)	2022-23 (%)	2023-24 (%)	2024-25 (%)	2025-26 (%)
Base tier under 65	24.608	15.000	5.000	-	-
Base tier 65-69	28.710	19.000	9.000	-	-
Base tier 70+	32.812	23.000	13.000	3.000	-
Tier 1 under 65	16.405	6.000	-	-	-
Tier 1 65-69	20.507	11.000	-	-	-
Tier 1 70+	24.608	15.000	5.000	-	-
Tier 2 under 65	8.202	-	-	-	-
Tier 2 65-69	12.303	-	-	-	-
Tier 2 70+	16.405	-	-	-	-

Costing overview

The proposal would be expected to increase the fiscal balance by around \$20,330 million and increase the underlying cash balance by around \$19,590 million over the 2022-23 Budget forward estimates period.

These impacts are primarily due to a decrease in Private Health Insurance Rebate expenses, reflecting the combined effect of lower rebate rates for recipients affected by the proposal and an assumed decrease in the number of people using private health insurance from the resultant higher out of pocket cost. There would also be a decrease in revenue due to the removal of the Medicare Levy Surcharge.

The difference between the fiscal and underlying cash balances is due to the timing of when the Private Health Insurance Rebate is incurred and paid through the Australian Taxation Office, which is in the next income year, as individuals file their tax returns.

The proposal would have ongoing financial implications beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2032-33 is provided at Attachment A.

The financial implications of this costing are sensitive to changes in health insurance premiums, the consumer price index, and behavioural responses to changes in the cost of private health insurance.

This proposal may result in a significant decrease in private health insurance coverage. This would in turn put additional pressure on the public health system and public health expenditure. However, these broader flow-on impacts are highly uncertain and as such have not been included in this costing.

Table 1: Financial implications (\$m)^{(a)(b)}

	2022-23	2023-24	2024-25	2025-26	Total to 2025-26
Fiscal balance	2,698	4,705	6,101	6,827	20,331
Underlying cash balance	2,428	4,455	5,951	6,757	19,591

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) PDI impacts are not included in the totals.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- As the proposal would increase out-of-pocket costs of private health insurance, there would be a decrease in the number of people taking out coverage, with higher income policy holders assumed to be less responsive to price changes and therefore more likely to maintain their cover than those on low incomes. This is only relevant over the period where the Private Health Insurance Rebate is being phased out under the proposal (2022-23 to 2024-25).
- The majority of Private Health Insurance Rebate expenses administered by the Department of Health are delivered in the same financial year in which they accrue, with a small proportion delivered in the following financial year. Additionally, there is an amount paid through the Australian Taxation Office as individuals file their tax returns.

Methodology

The financial implications of the proposal were estimated based on the current number of Private Health Insurance Rebate recipients and average rebate amounts by income tiers, with adjustments for the assumed behavioural change of people ceasing private health insurance coverage as a result of the proposal.

Projected income distributions of individuals and families with and without private health insurance were generated based on de-identified 2018-19 personal income tax data. Average private health insurance premiums were estimated using data from the Private Health Insurance Administration Council and projected over the medium term.

Private Health Insurance Rebate amounts were estimated under both current and proposed policy settings. Behavioural responses to the increase in net private health insurance premiums were taken into account. The total Private Health Insurance Rebate expense estimates under the proposal were then compared to the total under the baseline scenario to determine the cost of the proposal. The reduction in the Medicare Levy Surcharge revenue was derived from the revenue in the budget baseline.

The PBO has estimated departmental expenses based on recent budget measures with similar administrative complexity. Departmental expenses of \$2 million were included for the implementation of the new policy. There is no ongoing departmental expense reduction as a result of abolishing the rebate. It is assumed that the same number of staff is still required to carry out other functions associated with the oversight and regulation of the private health insurance sector.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.¹

Data sources

The Australian Taxation Office provided de-identified personal income tax and superannuation contribution unit record data for 2018-19.

Australian Prudential Regulation Authority (APRA), [Private Health Insurance Quarterly Statistics](#), APRA, June 2021, accessed 27 April 2022.

Australian Government, *Portfolio Budget Statements 2022–23 Budget Related Paper No. 1.7 Health Portfolio*, Australian Government, 2022.

Australian Government, *Portfolio Budget Statements 2022–23 Budget Related Paper No. 1.13 Treasury Portfolio*, Australian Government, 2022.

TC Cheng, *Working Paper No. 26/11: Measuring the effects of removing subsidies for private insurance on public expenditure for health care*, Melbourne Institute of Applied Economic and Social Research, University of Melbourne, 2011.

RP Ellis and E Savage, *Run for cover now or later? The impact of premiums, threats and deadlines on private health insurance in Australia*, *International Journal of Health Care Finance and Economics*, 8:257-277, 2008.

A Robson, H Ergas, and F Paolucci, *The Analytics of the Australian Private Health Insurance Rebate and the Medicare Levy Surcharge*, *Agenda*, 18(2):27-47, 2011.

¹ https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Putting Money into Hospitals Instead of Private Health Insurance – financial implications

Table A1: Putting Money into Hospitals Instead of Private Health Insurance – Fiscal balance (\$m)^(a)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Revenue													
<i>Medicare Levy Surcharge</i>	-	-505	-589	-623	-655	-688	-727	-771	-820	-871	-922	-1,717	-7,171
Total – revenue	-	-505	-589	-623	-655	-688	-727	-771	-820	-871	-922	-1,717	-7,171
Expenses													
Administered													
<i>Private Health Insurance Rebate</i>	2,700	5,210	6,690	7,450	7,680	7,920	8,180	8,460	8,760	9,090	9,420	22,050	81,560
Total – administered	2,700	5,210	6,690	7,450	7,680	7,920	8,180	8,460	8,760	9,090	9,420	22,050	81,560
Departmental													
<i>Initial implement expense</i>	-2	-	-	-	-	-	-	-	-	-	-	-2	-2
Total – departmental	-2	-	-	-	-	-	-	-	-	-	-	-2	-2
Total – expenses	2,698	5,210	6,690	7,450	7,680	7,920	8,180	8,460	8,760	9,090	9,420	22,048	81,558
Total (excluding PDI)	2,698	4,705	6,101	6,827	7,025	7,232	7,453	7,689	7,940	8,219	8,498	20,331	74,387

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

- Indicates nil.

Table A2: Putting Money into Hospitals Instead of Private Health Insurance – Underlying cash balance (\$m)^(a)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Receipts													
<i>Medicare Levy Surcharge</i>	-	-505	-589	-623	-655	-688	-727	-771	-820	-871	-922	-1,717	-7,171
Total – receipts	-	-505	-589	-623	-655	-688	-727	-771	-820	-871	-922	-1,717	-7,171
Payments													
Administered													
<i>Private Health Insurance Rebate</i>	2,430	4,960	6,540	7,380	7,650	7,890	8,150	8,430	8,730	9,050	9,380	21,310	80,590
Total – administered	2,430	4,960	6,540	7,380	7,650	7,890	8,150	8,430	8,730	9,050	9,380	21,310	80,590
Departmental													
<i>Initial implement expense</i>	-2	-	-	-	-	-	-	-	-	-	-	-2	-2
Total – departmental	-2	-	-	-	-	-	-	-	-	-	-	-2	-2
Total – payments	2,428	4,960	6,540	7,380	7,650	7,890	8,150	8,430	8,730	9,050	9,380	21,308	80,588
Total (excluding PDI)	2,428	4,455	5,951	6,757	6,995	7,202	7,423	7,659	7,910	8,179	8,458	19,591	73,417

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

- Indicates nil.

Table A3: Putting Money into Hospitals Instead of Private Health Insurance – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Fiscal balance	30	110	230	380	550	740	970	1,220	1,500	1,830	2,200	750	9,760
Underlying cash balance	20	100	210	360	530	720	940	1,190	1,470	1,790	2,160	690	9,490

- (a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the table above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary².
- (b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

² [Online budget glossary – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au)